

Mercosur: a failing development project?*

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The economic development of Latin America since independence is a story of unfulfilled promise ... [It] ... has remained a peripheral region in which external influence has been pre-eminent.

Victor Bulmer-Thomas, *The economic history of Latin America since independence*

The 1980s saw not only the end of the Cold War and the eventual dismantling of the Soviet Union, but also radical political and economic change across South America. While in 1980 authoritarian rule was the norm in most countries in the region, by the end of that decade it had been replaced by some form of constitutional democracy in each of them. For example, military rule in Argentina and Brazil ended in 1983 and 1985 respectively, and these two former adversaries began the process of moving towards political accord with closer economic engagement. With this decidedly more open world came the prospect of greater global economic integration. The concept of 'globalization' came to mean many things, but for developing regions such as South America it was seen both as an opportunity, to come in from the periphery through integrating into a developing global economy, and a challenge, of how to achieve that integration. The response was to embrace the 'new (open) regionalism' and the neoliberal economic model personified by the 'Washington consensus': trade liberalization and open markets, privatization, liberalization of investment flows, deregulation, fiscal discipline and so on.

The creation of Mercosur in 1991 was part of the response to these various developments and challenges.¹ At heart, it was a political project, bringing Argentina and Brazil closer together, with strong economic objectives. At the same time it also sought the acceleration of 'economic development with social justice'.² This article will explore to what extent any development aims have

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¹ Common Market of the South (Southern Cone); in Spanish, Mercado Comun del Sur. Full members are Argentina, Brazil, Paraguay and Uruguay, with Bolivia and Chile as associates. 'Latin America' includes South and Central America and Mexico.

² For the full text in English of the Treaty of Asunción, see <http://www.sice.oas.org/trade/mrcsr/mrcsrtoc>.

been achieved, concluding that to date few have been. It will begin by placing Latin America within a wider 'development' framework before considering whether there is a distinct Latin American development tradition which helps to explain why this aspect of the Mercosur project has made no real progress. It will consider both the successes and the failures of Mercosur, highlighting both its 'institutional deficit' and the 'social deficit' within its member states. Moving on from this assessment, and against a discussion of the role law plays in development, it will argue that various factors—political, structural, institutional and judicial—have constrained the scope of the Mercosur project. Finally, it will briefly consider what the future holds for Mercosur, suggesting that its contribution is more likely to remain political rather than developmental.

The development framework

A 'development imperative'³—the demand and push for economic development—took hold in the period following the Second World War. A key driver was the process of 'decolonization', though Latin America had long been beyond this stage. New nations emerged with a legacy of economic, social and political distortions. Each had to work within its own 'unique historical, cultural, economic, political and material ... mix',⁴ and cope with a polarized and then rapidly changing international order. Their principal forum was the United Nations, where development took on an increasingly strident voice as the new independent nations became members. 'Development' can, therefore, be seen as a process of fundamental socioeconomic change.⁵ A key point is that these 'historical transformations are complex processes and to understand them we need to adopt a multi-causal approach'.⁶ It can be argued that the interaction of the various internal and external variables causes the unique variations in the development process. As Dickson has observed, the process of development is not the same in all societies or in all historical periods. Her definition of development, therefore, offers a useful signpost for this article: 'an *ongoing process of qualitatively ameliorating social, political and economic change*: that is, progressive change which improves and sustains the quality of life of human society'.⁷

Thus, while a single development indicator might be elusive,⁸ a broad-based approach along the lines of the UNDP's Human Development Index does have some assessment value.

Two approaches to development theory were influential until the Cold War was coming to an end: 'modernization' and 'dependency' theories. In reality,

³ The term is borrowed from James M. Cypher and James L. Dietz, *The process of economic development* (London: Routledge, 1997), p. 3.

⁴ Brian Z. Tamahana, 'The lessons of law-and-development studies', *American Journal of International Law* 89, 1995, p. 484.

⁵ Cypher and Dietz, *The process of economic development*, p. 11.

⁶ Thomas E. Skidmore and Peter H. Smith, *Modern Latin America* (Oxford: Oxford University Press, 2001), p. 11.

⁷ Anna Dickson, *Development and international relations* (Cambridge: Polity Press, 1997), p. 16.

⁸ Cypher and Dietz, *The process of economic development*, p. 49.

they were aggregates of various approaches sharing some common themes.⁹ 'Modernization' theory expressed a confidence in the power of progress, believing that developing countries could achieve the same growth path as the developed world, producing similar economic, political and social institutions,¹⁰ and positively participating in the international economy.¹¹ 'Dependency' theory arose as a critique of 'modernization' theory but focused on external factors. It was particularly strong in Latin America, where it emerged.¹² For dependency thinkers, the international economy perpetuated inequality and underdevelopment, through distortions created by dependency status. Thus, backward socio-economic forces entrenched by colonialism were reinforced by the prevailing conditions of the world economy.

Both approaches were only partial explanations. While modernization theory was misplaced in applying the economic history of developed to developing countries, dependency theory overestimated the importance of external factors and ignored powerful domestic and historical obstacles in individual societies.¹³ Nevertheless, both influenced policy-making. Modernization theory provided the basis for US and European development policies and aid programmes, while dependency theory, especially in Latin America, influenced policies on state intervention and inward-looking regional economic integration, as well as thinking on continued vulnerability to external transnational factors. For Schuurman, however, these theories of development, and the 'international development aid industry', have shared three basic tenets, all of which have been challenged by globalization:

- a disposition to treat the 'Third World' as a homogeneous entity;
- a belief in progress and the 'makeability' of society;
- the importance of the nation-state in realizing that progress.¹⁴

Each of these tenets will be touched upon later in this article; first, it is necessary to consider the concept of globalization.

The 1990s saw the spread of free market economics and democracy, not least in Latin America, where military governments dissolved. Countries began dismantling state structures, privatizing, deregulating commercial and financial activities, and opening up their economies. This movement was accompanied by technological and communications advances,¹⁵ allowing integrated global

⁹ Cristóbal Kay, *Latin American theories of development and underdevelopment* (London: Routledge, 1989), p. 126.

¹⁰ Tamahana, 'The lessons of law-and-development studies', p. 471.

¹¹ For example, Paul Rosenstein-Rodan's theory of the 'big push', and Walt Whitman Rostow's 'stages of economic growth' and the concept of 'take-off'.

¹² See Andrew Hurrell, 'The United States and Latin America: neorealism re-examined', in Ngaire Woods, ed., *Explaining international relations since 1945* (Oxford: Oxford University Press, 1996), pp. 167–71.

¹³ *Ibid.*, p. 170.

¹⁴ Frans J. Schuurman, 'Paradigms lost, paradigms regained? Development studies in the twenty-first century', *Third World Quarterly* 21: 1 (2000), p. 7.

¹⁵ Mark T. Berger, 'The nation-state and the challenge of global capitalism', *Third World Quarterly* 22: 6, Dec. 2001, p. 890.

product and factor markets to emerge through the movement of goods, services, capital and even labour.¹⁶ This process of globalization was exemplified by the 'transnational' corporation (TNC), which not only moved capital around the globe but also sought common practices and standards, such as intellectual property rights. The concept of globalization has generated multiple positions and definitions which cannot be fully elucidated here. However, many describe it essentially in economic terms,¹⁷ while others, such as Jameson, suggest a more wide-ranging process encompassing all aspects of society.¹⁸ For him, as for some others,¹⁹ the key political issues were subordination to US power and the future of the nation-state. Moreover, US hegemony was seen to be perpetuated through international financial institutions, such as the World Bank and the IMF, whose prescriptions, particularly as applied to Latin America, became the 'Washington consensus'.²⁰ The challenges of globalization—including erosion of the nation-state and the mobility of international capital—were therefore seen as key determinants of development. Thus regional integration projects, such as Mercosur, have been seen by participants not only as a necessary component of development but as essential if the economic challenges of globalization, particularly for the smaller developing countries, are to be addressed.²¹ However, what is now occurring across many countries in South America is a growing realization that a strictly economic approach to globalization has tended to overlook its political drive, suggesting a reconfiguration of dependent development. Thus the whole notion of the 'Washington consensus' is being challenged.

Development in Latin America

To what extent did Shuurman's key themes of development, and the challenges of globalization, impact on Latin America? Many consider development theory has failed to generate a convincing explanation of Latin American development,²² especially its intermediate position in the scale of development or the differences among individual countries.²³ While Latin America may share 'the challenges of change' with other developing regions,²⁴ there remain fundamental

¹⁶ Victor Bulmer-Thomas and A. Douglas Kincaid, *Central America 2020: towards a new regional development model* (Hamburg: Institut für Iberoamerika-Kunde, 2000), p. 28.

¹⁷ For example, Victor Bulmer-Thomas, ed., *Regional integration in Latin America and the Caribbean: the political economy of open regionalism* (London: Institute for Latin American Studies, 2001), pp. 2–4, lists eight economic dimensions of globalization.

¹⁸ Fredric Jameson, 'Globalization and political strategy', *New Left Review*, July/Aug. 2000, p. 49.

¹⁹ John Gray, *False dawn: the delusions of global capitalism* (London: Granta, 1999), p. 221.

²⁰ The term was invented in 1990 by John Williamson, who argued that the set of policy reforms which most of official Washington thought would be good for Latin America could be summarized in ten propositions ranging from fiscal discipline to privatization, deregulation and so on. He has since challenged its use as a synonym for neoliberalism. See John Williamson, 'What should the Bank think about the Washington consensus?', <http://www.iie.com/papers/williamson0799.htm>.

²¹ Bulmer-Thomas and Kincaid, *Central America 2020*, p. 3.

²² G. Pope Atkins, *Latin America and the Caribbean in the international system* (Oxford: Westview, 1999), p. 64.

²³ Victor Bulmer-Thomas, *The economic history of Latin America since independence* (Cambridge: Cambridge University Press), p. 14.

²⁴ Pope Atkins, *Latin America and the Caribbean in the international system*, p. 65.

differences that may have helped to create a distinctive Latin American development tradition. Howard Wiarda has extensively explored this 'distinctive tradition'. He sees 'ethnocentric models of development', which have generalized from Western experience, as inappropriate and of limited relevance for Latin America because the conditions and circumstances prevailing there are quite different. For example, the international settings have wholly changed to the extent that Latin America is caught up in a web of international dependency and interdependency (including the role of the international lending agencies, the Cold War and alliance systems) over which it has little control. Most importantly, traditional institutions in Latin America have remarkable persistence and staying power.²⁵ Central to his framework for analysis is an understanding of the historical and cultural conditions of Latin America in determining social and political behaviour. He argues that traditional institutions have not only acted as 'filters and brokers' of the modernization process, but often proved adaptive and durable. Consequently, even in the new period of democracy 'Latin America ... remains in many ways hierarchical, authoritarian, paternalistic, Catholic (in the broad political-cultural sense as used here), elitist, corporatist and patrimonialist to its core.'²⁶ This character is at the heart of its distinctive development tradition. Moreover, law plays a crucial role in the persistence of the Latin American tradition.²⁷

In what sense, therefore, is Latin America a developing region? Some basic comparisons of economic and human development can be made to locate the region in the global political economy. Table 1 shows that Latin America is the strongest of the 'developing' regions but still falls far short of GNP indicators of developed states. Moreover, within the region Mercosur as a whole was the most developed group of countries, though this was boosted by Argentina, whose GNP per capita will have declined significantly during the years of economic collapse after 1999. Latin America is predominantly urban, is an important primary producer, has achieved rapid growth in many countries and has consequently developed major environmental problems. It remains a region of contradictions and extremes. Perhaps its most invidious distinction is that the region's 'income distribution is among the most unequal in the world'.²⁸ Within some countries the extremes are even greater. In Brazil, for instance, 10 per cent of the population has nearly 50 per cent of total income and accounts for nearly 50 per cent of total consumption, higher even than in South Africa, making it the most unequal country in Latin America.²⁹ For Sheahan and

²⁵ Howard J. Wiarda, ed., *Politics and social change in Latin America: still a distinctive tradition?* (Boulder, CO: Westview, 1992), p. 4.

²⁶ Ibid., p. 20. According to Wiarda, 'Corporatism refers to a system in which the political culture and institutions reflect a historic hierarchical, authoritarian, organic view of man, society and polity.'

²⁷ Wiarda, 'Law and political development in Latin America: toward a framework for analysis', *ibid.*, p. 221.

²⁸ Nancy Birdsall, Carol Graham and Richard H. Sabot, 'Virtuous circles in Latin America's second stage of reforms', in Birdsall, Graham and Sabot, eds, *Beyond tradeoffs: market reform and equitable growth in Latin America* (Washington DC: Brookings Institution, 1998), p. 1.

²⁹ See World Bank, *World Development Report 2000/01: attacking poverty*, selected world development indicators, at <http://www.worldbank.org/wpb/wdrpoverty/report/index.htm>.

Table 1: Comparative development indicators

Region	GNP per head, 1999 (US\$)	Life expectancy at birth, 1999 years		Infant mortality rate, 1998 (1980), per 1,000 live births	Under 5 mortality rate, 1999 (1980, per 1,000
		M	F		
Developing countries	1,240	63	67	59 (87)	79 (135)
Latin America and Caribbean	3,840	67	73	31 (61)	38 (78)
Mercosur	4,208	67	73	27 (57)	33 (71)
East Asia and Pacific	1,000	67	71	35 (55)	43 (82)
Europe and Central Asia	2,150	65	74	22 (41)	26 (—)
Middle East and North Africa	2,060	66	69	45 (95)	55 (136)
South Asia	440	62	63	75 (119)	89 (180)
Sub-Saharan Africa	500	49	52	92 (115)	151 (188)
Developed countries	25,730	75	81	6 (12)	6 (75)
United States	30,600	74	80	7 (13)	— (15)
UK	22,640	75	80	6 (12)	7 (14)

Sources: *World Development Report 2000–2001: attacking poverty* (selected indicators): <http://www.worldbank.org/wbp/wdrpoverty/report/index.htm>; *Human Development Report 2001: making new technologies work for human development*: <http://www.undp.org/hdr2001>; *World Development Indicators 2001*: <http://www.worldbank.org>.

Iglesias, the persistence and depth of Latin American inequality derive from the values and institutional structures developed throughout Latin American history; the severe imbalance between the labour force and employment opportunities; adverse patterns of trade; and orientations of economic strategy and social policy.³⁰ Thus, while Latin America may have a distinctive development tradition, it may be a regressive one.

Two other aspects of Latin American development need to be highlighted: the ‘inter-American system’ and the spread of so-called ‘new regionalism’ in the 1990s. Latin America is, of course, dominated by the close proximity and influence of the United States. A structure for developing hemispheric relationships and responses is long standing. The ebbs and flows of this inter-American system have largely reflected US interests. In the period since the Second World War, the principal vehicle has been the Organization of American States (OAS), founded in 1948. Its influence and independence have varied, although during the 1990s

³⁰ John Sheahan and Enrique V. Iglesias, ‘Kinds and causes of inequality in Latin America’, in Birdsall, Graham and Sabot, eds, *Beyond tradeoffs*, p. 29.

many Latin American members have encouraged it to take a more proactive and independent role. Whatever the historic weaknesses of the system, its underlying value has been to establish a network of exchange, involving an institutional structure and a body of international law and principles. A degree of continuity has been achieved which has been invaluable when support structures have been needed.³¹

Phillips has suggested that '... regionalism ... constitutes a pivotal dimension of the new political economy of development.'³² Ideas of regional integration in Latin America have a long history, dating back to independence in the 1820s. They were also favoured by dependency theorists. The end of the Cold War saw the spread of a 'new regionalism', one very different from that aspired to earlier, which had been inward-looking and centred on an import substitution strategy led by a protectionist state. The 'new regionalism' sought to bring Latin America in from the periphery by locating it inside the global economy, rather than outside. Thus, the 'new regionalism' was 'geared to supporting structural reforms to make economies more open, market-based, competitive and democratic',³³ and attractive for foreign investment. It was part of the neoliberal economic model, with export-led growth as the main engine of development.³⁴ Its spread in the early 1990s also reflected a disillusionment with multilateral trade liberalization under GATT, as well as reaction to increasing world fragmentation and discrimination.³⁵

For Latin America, the 'new regionalism' could be seen also as a reaction to pressures in the inter-American system. Many countries were concerned that without the communist threat, the United States could lose interest in the region, weakening inter-American institutions. Others were concerned to strengthen their position in order to counter the US hegemony that it was feared would result from a Free Trade Area of the Americas.³⁶ It has also been suggested that it was a useful distraction from domestic political pressures, diverting attention to the negative impact of neoliberal policies.³⁷ Finally, the 'new regionalism' can be seen as an attempt to integrate into the world economy through 'open regionalism',³⁸

³¹ See Gordon Connell-Smith, *The inter-American system* (London: Oxford University Press, 1966).

³² Nicola Phillips, 'Regionalist governance in the new political economy of development: "relaunching" the Mercosur', *Third World Quarterly* 22: 4, 2001, p. 565.

³³ Robert Devlin and Antoni Estevadeordal, 'What's new in the new regionalism in the Americas?', in Bulmer-Thomas, ed., *Regional integration in Latin America and the Caribbean*, p. 43.

³⁴ See Mario Esteban Carranza, *South American Free Trade Area or Free Trade Area of the Americas? Open regionalism and the future of regional economic integration in South America* (Aldershot: Ashgate, 2000), p. 58.

³⁵ Leonardo Campos Filho, *New regionalism and Latin America: the case of Mercosul* (London: Institute for Latin American Studies, 1999), pp. 12–16.

³⁶ Donald G. Richards, 'Dependent development and regional integration: a critical examination of the Southern Cone Common Market', *Latin American Perspectives*, issue 97, 24: 6, Nov. 1997, p. 149: 'largely Brazilian reaction to the attempt by the United States to reassert its once unchallenged position as the hegemonic political power in the hemisphere'.

³⁷ See Nicola Phillips, 'Hemispheric integration and subregionalism in the Americas', *International Affairs* 79: 2, March 2003, pp. 000–00.

³⁸ Carranza ascribed five characteristics to 'open regionalism': free trade; openness to foreign investment; across-the board tariff reductions; access by non-members; market-driven character. See *South American Free Trade Area or Free Trade Area of the Americas?*, p. 62.

as the concept of 'globalization' took hold: 'regional integration can help ... [countries] ... to adjust to the new world order.'³⁹ Indeed, most countries in the world have responded to globalization in this way, though the exact reasons have varied substantially from one scheme to another.⁴⁰

Mercosur

The creation of Mercosur in 1991, then, can be seen both in a historical context and as an adaptation to the contemporary political climate.⁴¹ While some argue that it has a historical lineage that can be traced back to independence,⁴² others see its genesis as a relatively recent phenomenon.⁴³ The idea of a customs union was promoted in the 1930s and 1950s. By 1960 a Latin American Free Trade Association (LAFTA) had been created;⁴⁴ but by the end of that decade it had stalled, with rising discord among members.⁴⁵ Many countries were also adopting 'import substitution industrialization' (ISI) policies involving extensive protectionism. But during the intervening period various developments contributed to the subsequent cooperation agreements of the 1990s.⁴⁶ They included the desire to escape the so-called 'lost decade' of the 1980s, when debt spiralled and countries defaulted;⁴⁷ the return to democratic institutions and the opening of the economies to international trade and investment; the end of the Cold War, offering closer relations with the United States;⁴⁸ and the trend towards economic regionalism in Europe and North America.

The key to the emergence of Mercosur, however, was the development of closer relations between Argentina and Brazil from the mid-1980s as both returned to democracy and began economic liberalization.⁴⁹ Indeed, Almeida suggests that Mercosur was essentially a side-effect of a political decision by both countries rapidly to enhance bilateral integration,⁵⁰ although Cason is more specific in arguing that it was 'driven by the strategy and needs of Brazil'.⁵¹ In

³⁹ Bulmer-Thomas, ed., *Regional integration in Latin America and the Caribbean*, p. 2.

⁴⁰ Sheila Page, *Regionalism among developing countries* (Basingstoke: Macmillan, 2000).

⁴¹ Melissa H. Birch, 'Mercosur: the road to economic integration in the Southern Cone', *International Journal of Public Administration* 23: 5, May–Aug. 2000, p. 1404.

⁴² Sylvia M. Williams, 'Integration in South America: the Mercosur experience', *International Relations* 13: 2, Aug. 1996, pp. 51–61.

⁴³ Felix Pena, 'New approaches to economic integration in the Southern Cone', *Washington Quarterly* 18: 3, Summer 1995, pp. 113–22.

⁴⁴ See Diana Tussie, 'Latin American integration: from LAFTA to LAIA', *Journal of World Trade Law* 16, Sept.–Oct. 1982, pp. 399–413.

⁴⁵ Jaime Behar, 'Measuring the effects of economic integration for the Southern Cone countries: industry simulations of trade liberalization', *The Developing Economies* 33: 1, March 1999, pp. 4–5.

⁴⁶ See Williams, 'Integration in South America', pp. 52–3.

⁴⁷ See Richards, 'Dependent development and regional integration', section on 'The lost decade in the Southern Cone'.

⁴⁸ Jeffrey Cason, 'On the road to Southern Cone economic integration', *Journal of Interamerican Studies and World Affairs* 42: 1, 2000, pp. 23, 25.

⁴⁹ See Daniel Chudnovsky and Fernando Porto, 'On Argentine–Brazilian economic integration', *CEPAL Review* 39, 1989, pp. 115–34.

⁵⁰ Paulo Roberto de Almeida, 'Mercosur's future in the context of multilateral and regional trade liberalization', workshop paper, at <http://www.cap.uni-muenchen.de/transatlantic/events/la.html>.

⁵¹ Cason, 'On the road to Southern Cone economic integration', p. 24.

December 1986 the two countries signed an Act of Friendship, Democracy, Peace and Development, seeking to end the traditional rivalry between them, and further developments were consolidated in the 1990 Act of Buenos Aires. Shortly afterwards negotiations began which would result, by March 1991, in the Treaty of Asunción,⁵² providing for a Common Market of the South—Mercosur—within four years, and including Paraguay and Uruguay. A key aim was ‘economic development with social justice’. At the heart of Mercosur were two important principles: the idea of open regionalism; and the political significance of Mercosur as ‘a joint proposal for the shared development of these South American nations’.⁵³

The Treaty of Asunción was an enabling act, setting out a three-stage approach to the formation of Mercosur. A free trade area was to be established by 1994, succeeded by 1995 by a customs union, which would lead to the creation of a common market and a common external commercial policy. A ‘transition period’ to 31 December 1994 involved internal trade liberalization through progressive tariff reductions; the negotiation of a common external tariff; coordination of macroeconomic and sectoral policies to establish conditions for fair internal competition; and protocols covering sensitive sectors such as automobiles.⁵⁴ A target date was set for establishing a dispute resolution mechanism, and member states were required to set up a permanent institutional structure, including decision-making procedures and responsibilities for the component bodies.⁵⁵

Progress in Mercosur has been decidedly uneven since its creation, and today it is beset by the political and economic crisis in Argentina which is having a devastating effect on the small members as well as exacerbating structural weaknesses in Brazil. However, the Mercosur project began with something of a flourish. One early success was in driving an expansion of trade among members. Between 1990 and 1998 this increased fivefold, from US\$8 billion to US\$ 41 billion (see table 2). This was equivalent to a rise in the share of Mercosur’s total world trade from 11 per cent to 23 per cent during the same period. The aggregate data, however, disguise variations among individual member states. For example, Argentina’s intra-Mercosur trade in 2000 was 30 per cent of its world trade, whereas for Brazil it was only 14 per cent, against 26 per cent with the European Union. Underdeveloped Paraguay was the most dependent on its Mercosur partners, with which it conducted 54 per cent of its total trade. Mercosur has also provided a basis for cooperation in foreign economic policy.⁵⁶

Nevertheless, progress was not achieved without conflict. The main difficulty has been the temptation, for both Argentina and Brazil, to take unilateral action without prior consultation with partners. This has been exacerbated by the lack of an effective dispute mechanism, itself a reflection partly of Brazil’s

⁵² See note 2 above.

⁵³ Pena, ‘New approaches to economic integration in the Southern Cone’, p. 115.

⁵⁴ See Birch, ‘Mercosur’.

⁵⁵ Roberto Bouzos and Hernán Soltz, ‘Institutions and regional integration’, in Bulmer-Thomas, ed., *Regional integration in Latin America and the Caribbean*, p. 95.

⁵⁶ Cason, ‘On the road to Southern Cone economic integration’, p. 35.

Table 2: Mercosur trade, 1990–1999 (US\$m)

	1990	1996	1997	1998	1999
Trade with world	73,800	158,428	182,465	177,147	154,354
Intra-Mercosur	8,230	34,148	41,466	41,405	31,394
% of total trade	11.2	21.6	22.7	23.4	20.3
Trade with US	15,146	28,567	32,815	32,843	30,987
% of total trade	20.5	18.0	18.0	18.5	20.1
Trade with EU	20,290	40,018	45,118	46,555	41,891
% of total trade	27.5	25.3	24.7	26.3	27.1

Source: CEI (Centro Economía Internacional): <http://www.mercosur.com>.

insistence that it should remain an intergovernmental organization and not become a supranational body. The adoption of a common external tariff in 1995 was imperfect, riddled with exemptions and lacking in transparency. Finally, disparities in trade policies among member countries created serious obstacles to integration and disparities in exchange rates affected competition.⁵⁷ Conflicts since 1991 include that arising from the disparity of macroeconomic policies, which led to the Argentine ‘statistical tax’ on imports in 1992; the ‘automobile conflict’ from 1995, which still remains a divisive issue between Argentina and Brazil; the ‘import-financing conflict’ in 1997;⁵⁸ and the 1999 Brazilian devaluation.⁵⁹ In mid-2000 a relaunch was announced which has been largely stalled because of the crisis in Argentina, political uncertainties and economic problems in Brazil, and external developments, such as the slowdown in the US and world economies.

Many critics see the enterprise as both limited and flawed. Cammack, for instance, has gone so far as to conclude that ‘Mercosur is an ineffective regional association with little remaining capacity to contribute to regional and global integration, and little capacity to promote other goals.’⁶⁰ Richards argues that Mercosur did not create conditions for balanced and equitable development but simply reinforced the subordinate status of its members in the world capitalist system, reinforcing US hegemony in the region.⁶¹ More recently, and from a different perspective, Preusse has questioned the long-term feasibility of Mercosur because of the unwillingness of Argentina and Brazil to apply rigorous structural adjustment, to pool sovereignty, to develop a collective macroeconomic position and to act as a single political entity in external relations.⁶² These pessimistic

⁵⁷ Behar, ‘Measuring the effects of economic integration for the Southern Cone countries’, p. 29.

⁵⁸ Cason, ‘On the road to Southern Cone economic integration’.

⁵⁹ Victor Bulmer-Thomas, ‘Brazil’s devaluation: confounding the pessimists’, *International Affairs* 75: 4, Oct. 1999, pp. 729–41.

⁶⁰ Paul Cammack, ‘Mercosur and Latin American integration’, in Kurt W. Radtke and Marianne Wiesebron, eds, *Competing for integrations: Japan, Europe, Latin America and their strategic partners* (New York: M. E. Sharpe, 2001).

⁶¹ Richards, ‘Dependent development and regional integration’, p. 133.

⁶² Henry G. Preusse, ‘Mercosur—another failed move towards integration’, *The World Economy* 24: 7, July 2001, pp. 911–31.

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assessments question Mercosur's future, especially in terms of development and reversing some of the inequalities in the member states. Preusse offers a prescription for change, but for Reid, 'achieving macro-economic stability and convergence, and re-establishing and strengthening Mercosur's institutional credibility, presents huge challenges.'⁶³ Moreover, if it fails to overcome existing regulatory paralysis then he can see it only becoming an irrelevance in a wider Free Trade Area of the Americas.

Threading through the critical assessments of Mercosur are two aspects which have been given particular attention. First, serious questions are raised about Mercosur's ability to contribute to social development and address some of the gross inequalities to be found in member states; second, it is suggested that the lack of a credible institutional structure, with a regulatory framework, has contributed to this. A linked question is whether the neoliberal model underpinning Mercosur has had the effect of deepening the inequalities within it.⁶⁴ The argument has been that structural adjustment programmes insisted upon by institutions such as the World Bank and the IMF have increased poverty, particularly when states reduced long-term commitments to social provision by creating more market-driven social support structures.⁶⁵ At its extreme, this has been called 'making the poor work for globalization'.⁶⁶

Social deficit

To what extent has membership of Mercosur contributed to the 'economic development and social justice' prescribed by the Treaty of Asunción for member states in 1991? Despite this recognition of a social dimension to the integration process, economic development was not accompanied by an equivalent social development through either legislation or citizens' rights. While several intra-regional groups were set up, including a Socioeconomic Consultative Forum, and while the 'Mercosur Action Plan to Year 2000' of September 1995 emphasized the need for proposals to develop the Mercosur social dimension, these were limited to consultation and recommendation, and nothing substantial emerged at either the supranational level or that of international law.⁶⁷ On the contrary, Uriarte makes the point that regional economic integration can produce negative social effects: for instance, unemployment in certain sectors and the risk of 'social dumping' between member states.⁶⁸ Certainly in all four founding members

⁶³ Michael Reid, 'Turmoil and opportunity', *The World Today*, June 2002, p. 24.

⁶⁴ See Victor Bulmer-Thomas, *The new economic model in Latin America and its impact on income distribution and poverty* (London: Macmillan, 1996).

⁶⁵ Robert N. Gwynne and Cristóbal Kay, 'Views from the periphery: futures of neoliberalism in Latin America', *Third World Quarterly* 21: 1, Feb. 2000, p. 150.

⁶⁶ See Paul Cammack, 'Making the poor work for globalization?', *New Political Economy* 6: 3, 2001, pp. 397-407.

⁶⁷ This assessment draws on Oscar Ermida Uriarte, 'Mercosur institutions and labour relations', paper presented to conference on Economic Integration, Labour Law and Social Security in the Americas (jointly organized by the Canadian Association of Labour Lawyers and Martineau Walker) in Viña del Mar, Chile, 14-15 April 1998. See <http://laboris.uqam/conference/textes/ErmidaEng.htm>.

⁶⁸ *Ibid.*, p. 2.

urban unemployment increased between 1990 and 1999: in Argentina from 7.4 per cent to 14.5 per cent; in Brazil from 4.3 per cent to 7.6 per cent; in Paraguay from 6.6 per cent to 9.4 per cent; and in Uruguay from 8.5 per cent to 11.3 per cent. It will have worsened since then.

These were the years of the 'first-generation reforms', when the priorities were reducing inflation and restoring growth; when Mercosur was developing 'a core upon which something broader and deeper could gradually be built'.⁶⁹ It was not until the 'second-generation' reforms that institutional reform and improving social conditions were expected to become priorities.⁷⁰ Such 'deepening' of Mercosur would require 'a qualitative leap on an institutional level to equip Mercosur with ... rules that have a real impact'.⁷¹ Mercosur's rationale for the 'first-generation' reforms was that intraregional trade liberalization, supporting a wide neoliberal agenda of open markets and structural reform, would generate export-led economic growth. This in turn would help in poverty reduction. However, that inference ignored critical impediments such as persistent levels of inequality perpetuated by low skill levels.⁷² The region continues to lag behind some other developing regions, such as East Asia, in both the quantity and the quality of education needed to correct this.⁷³ Mercosur's public expenditure on education varies between countries, but even Brazil's, at 5.1 per cent of GDP, is insufficient and tends to concentrate on university-level education. It has further been argued that the application of the neoliberal structural adjustment programmes promoted by international financial institutions has included state reform that 'redefines social policy and the role of the state ... reducing public social services to a minimum for the very poor'.⁷⁴ Another factor is skewed social expenditure. Brazil, for instance, has a high level of social expenditure compared with other countries at a similar level of development, but this spending is skewed towards social security, particularly pensions, and has not been converted into social outputs (basic health and education indicators), where Brazil performs poorly against other comparable countries.⁷⁵ Thus the existence of Mercosur appears to have made little or no contribution to redressing the social deficit. Indeed, it could be argued that the neoliberal model originally espoused by its members may have contributed to this in some respects.

⁶⁹ Felix Pena, 'Broadening and deepening: striking the right balance', in Riordan Roett, ed., *Mercosur: regional integration, world markets* (London: Lynne Rienner, 1999), p. 52.

⁷⁰ See Moises Naim's two stages of economic liberalization typology in 'Washington consensus or Washington confusion?', working draft of a paper prepared for the IMF Conference on Second Generation Reforms, Washington DC, 26 Oct. 1999.

⁷¹ Pena, 'Broadening and deepening', pp. 49, 59.

⁷² Nora Lustig and Ruthanne Deutsch, *The Inter-American Development Bank and poverty reduction: an overview* (March 1998), http://www.iadb.org/sds/pov/publication/publication_21_246_e.htm.

⁷³ 'Cramming them in: more Latin Americans are being educated, but not well', *The Economist*, 11 May 2002, pp. 63–4.

⁷⁴ Asa Cristina Laurell, 'Structural adjustment and the globalization of social policy in Latin America', *International Sociology* 15: 2, June 2000, p. 306.

⁷⁵ *OECD Economic Survey of Brazil: June 2001* (Paris: OECD, 2001), pp. 194–206.

Institutional deficit

Discussion of the social deficit has highlighted the role of institutions in the development of Mercosur. The Inter-American Development Bank has recently concluded that 'Mercosur suffers from a juridical and institutional deficit.'⁷⁶ Adopting neoliberal prescriptions would have little impact in the new democracies if commercial and public services were either corrupt or inefficient: 'macroeconomic reforms ... are not enough to propel countries on the road to prosperity ... more effective institutions were urgently needed to complement macroeconomic policy changes.'⁷⁷ In the international context, norms, rules and constitutions are generated to enable states to deal together with common problems and to enhance welfare.⁷⁸ Institutions can thus be described as formal and informal rules governing economic and social behaviour. They not only reflect the histories and cultures of individual countries but are endogenous to the social, economic and cultural contexts in which they operate. Graham and Naim have argued that institutions are important in helping to stimulate growth, making it sustainable and more equitably distributed. Thus institutions play a crucial role in reducing poverty and inequality by enabling states to meet key objectives.⁷⁹ However, to achieve credibility, and compliance, they must be generally accepted as neutral, offering both continuity and certainty. Thus central to an institutionalist approach is the notion that 'under conditions of interdependence, governments demand international institutions to enable them to achieve their interests through limited collective action.'⁸⁰ Consequently, institution-building can be a question of 'self-interest'; but, as Hurrell has suggested, 'Mercosur's institutions have not done much to alter the patterns of power and interest of the member states.'⁸¹

Mercosur's formal institutions have developed through several stages. The Treaty of Asunción set out 'transitional' arrangements, including the two key intergovernmental organs: the (political/ministerial) Common Market Council (CMC), responsible for political direction; and the (official/technical) Common Market Group (CMG), covering implementation of rules and negotiations on macroeconomic and sector policy coordination. Although initial dispute settlement procedures were established through the Protocol of Brasilia (1991), it was the Protocol of Ouro Preto (POP) in December 1994 that sought to establish the permanent structure.⁸² These were 'modest organisational innovations', according

⁷⁶ INTAL (Institute for the Integration of Latin America and the Caribbean), *Mercosur Report 2000/2001* (Buenos Aires: Inter-American Development Bank, Mercosur Report No. 7, 2001), p. 5. See <http://iadb.org/intal/ingles/I-default.htm>.

⁷⁷ Naim, 'Washington consensus or Washington confusion?', pp. 10–11.

⁷⁸ Andrew Hurrell, 'The politics of regional integration in Mercosur', in Bulmer-Thomas, ed., *Regional integration in Latin America and the Caribbean*, p. 200.

⁷⁹ Carol Graham and Moises Naim, 'The political economy of institutional reform in Latin America', in Birdsall et al., eds, *Beyond tradeoffs*, p. 321.

⁸⁰ Robert Keohane, 'Institutionalist theory and the realist challenge after the Cold War', in David Baldwin, ed., *Neo-realism and neo-liberalism* (New York: Columbia University Press, 1993), p. 274.

⁸¹ Hurrell, 'The politics of regional integration in Mercosur', p. 203.

⁸² The full text of the protocol is available at <http://sice.oas.org/trade/mrcsr/ourop/index.asp>.

to Bouzos and Soltz.⁸³ The Treaty of Asunción did, however, spell out the legal sources of Mercosur, gave it a 'legal personality' as a bloc for international negotiations and signature, and refined the dispute settlement procedure. Yet the treaty provided little role for groups in Mercosur outside the executive branch, while the Economic and Social Forum provided for in the POP has not come into operation.⁸⁴ The treaty was, therefore, essentially 'a public policy initiative designed to shape international economic relations and set the direction of industrial development in the region'.⁸⁵

Crucial to any interstate treaty is the balance struck between political and institutional control over the process. There is a strong argument that dispute settlement provisions are important for maximizing the benefits of treaties. They become important guarantors of commitments made by the parties. They may be 'formalistic', with an independent judicial body, or ad hoc. Mercosur chose the latter approach, and most disputes have been dealt with through consultation, invariably after the event.⁸⁶ In this respect, Mercosur's institutional structure differed substantially from the EU's. Mercosur had a strong inter-governmental bias, there was no independent judicial body, and the legal acts of its organs were incomplete.⁸⁷ While they were mandatory, 'they were neither "immediately applicable" nor have "direct effect"', so members need not necessarily enforce them.⁸⁸ This has some resonance with Peter Evans's study of the state in less developed countries. He identified three archetypes: the 'predatory state', where 'every aspect of society is for sale'; the 'intermediate state', where inconsistencies reign; and the 'developmental state', possessing 'embedded autonomy' and including effective institutional structures.⁸⁹ Most Latin American countries, including those in Mercosur, fall into the intermediate category. At the state level, in Evans's Brazilian example, there are pockets of efficiency alongside endemic organizational weakness; competent and cohesive professionalism alongside the unprofessional; integrity and incompetence. The state is, therefore, shaky, creating both 'vicious circles of dissonance and virtuous circles of interaction'.⁹⁰ Such states might also be expected to exhibit the sort of institutional malfunctions—whether resource-related, politically driven or organizational—identified by Graham and Naim.

⁸³ Bouzos and Soltz, 'Institutions and regional integration', p. 95.

⁸⁴ Williams, 'Integration in South America', p. 60.

⁸⁵ Birch, 'Mercosur', p. 1406.

⁸⁶ This analysis draws on Rosine M. Plank-Brumback, 'Dispute settlement', in José Manuel Salazar-Xirinachs and Maryse Roberts, eds, *Toward free trade in the Americas* (Washington DC: Brookings Institution, 2001), pp. 255–75.

⁸⁷ Bouzas and Soltz, 'Institutions and regional integration', p. 95.

⁸⁸ *Ibid.*, p. 107.

⁸⁹ Peter Evans, *Embedded autonomy: states and industrial transformation* (Princeton, NJ: Princeton University Press, 1995).

⁹⁰ Cypher and Dietz, *The process of economic development*, p. 232.

Law and development in Latin America

In arriving at a view on whether institutional mechanisms in Mercosur have limited its development potential, two further issues need to be addressed: what influence have legal traditions had; and what role, therefore, can the law play in development? In his assessment of the 'law and development' movement of the 1960s, Tamahana suggests that while law is helpful in the development process, it 'is not of primary importance'.⁹¹ Law is by nature socially derived, and legal systems are among the sources of power in societies. Consequently, 'lawyers are technicians who effectuate decisions made by others'.⁹² Law is not, therefore, inherently a direct engine of change but one of the building blocks. Thus developing countries, in Tamahana's view, would benefit if they developed their own variants of the rule of law. The legal and constitutional frameworks of Latin America have often been characterized as contradictory, or dissonant in the sense used by Evans in his description of the 'intermediate state'. While they may have formal written rules, there is often a contradiction between the enactment of law and its implementation. Consequently, if legal constitutions are to operate effectively, so the argument goes, such contradictions need to be gradually eliminated. However, according to Frühling, most judicial systems in Latin America 'are neither independent nor effective'.⁹³ The deficiencies are legion: failure to ensure citizens' rights or to challenge repressive policies; political manipulation; slow adjudication processes; corruption; differential accessibility; and public distrust.⁹⁴ The persistence of political violence has contributed to a lack of political accountability and a concern over whether the rule of law can take hold in Latin America. It presents particular problems for a transition to democratic rule: how to establish a rule of law which protects human rights and prevents the recurrence of earlier abuses. Sieder has suggested that this problem of 'impunity' over past abuses 'continues to condition the nature of democracy throughout the region today'.⁹⁵

As suggested earlier, the state in Latin America has been historically at the apex of society, as its most important determining feature and the prime regulator, coordinator and driver.⁹⁶ The conventional three-part division of power has been unequal, with the executive given constitutional power to bypass the legislature, although this is changing.⁹⁷ Unlike the American and British common law tradition, Latin American law is derived from a tradition of codified law.

⁹¹ Tamahana, 'The lessons of law-and-development studies', p. 484.

⁹² Ibid.

⁹³ Hugo Frühling, 'Judicial reform and democratisation in Latin America', in Felipe Aguero and Jeffrey Stark, eds, *Fault lines of democracy in post-transition Latin America* (Miami: North-South Center, 1998), p. 237.

⁹⁴ A Latinobarometro 2001 poll showed that only 30 per cent of the populations of the region had confidence and trust in the judiciary. This has changed little since democracies were restored. See *The Economist*, 'An alarm call for Latin America's democrats', 26 July 2001; Marta Lagos, 'How people view democracy: between stability and crisis in Latin America', *Journal of Democracy* 12: 1, Jan. 2001. Both available online at <http://www.latinobarometro.org>.

⁹⁵ Rachel Sieder, ed., *Impunity in Latin America* (London: Institute for Latin American Studies, 2001), p. 1.

⁹⁶ Howard J. Wiarda and Harvey F. Kline, *An introduction to Latin American politics and development* (Boulder, CO: Westview, 2001), p. 131.

⁹⁷ Ibid., p. 134.

The codes tend to be complete bodies of law with little room for precedent or judicial reinterpretation. Thus, according to Wiarda and Kline, 'because courts and judges are applicators and enforcers rather than creative interpreters of the law, they tend to be seen as bureaucrats and bureaucratic agencies ... [making] ... an independent judiciary difficult at best.'⁹⁸ Nevertheless, while law as a tool of development has fallen from grace, there has emerged a 'rule of law' revival in Latin America,⁹⁹ although considerable uncertainty remains about the influence of judicial reform on economic development.¹⁰⁰ Davis and Trebilcock have recently argued that the focus has in fact shifted to institutional reform generally—the 'second-generation' reforms discussed earlier in this article. Their survey of recent empirical analysis concludes that while judicial systems in many developing countries are deficient, attention should also be given to the role of the government and law enforcement agencies. Legal reforms, therefore, needed to be placed in a broader agenda of public sector reform. Echoing Tamahana, they suggest that an important lesson is that 'legal institutions do not play a wholly autonomous role in development: their effectiveness is contingent upon the effectiveness of a number of other institutions.'¹⁰¹ Wiarda would agree, arguing that we should approach Latin American legal systems on their own terms, studying their uneven modernization, inconsistencies, gaps and lags in development; in other words, 'how the corporate structure of society and policy and the traditional institutions based upon it can adapt to modernization'.¹⁰²

Conclusions

Mercosur was established in 1991 partly to accelerate 'economic development with social justice'. It was also many other things: a political initiative bringing old antagonists together; a building block in the neoliberal project; a response to globalization and US hegemony. In the intervening years it has come under critical scrutiny. While it achieved initial success in stimulating intraregional trade growth, in other areas of development it has proved less successful. This article has highlighted a number of areas that might have constrained the scope of the Mercosur project.

Political constraints

'The inequality of power explains a good deal of the character and limits of institutionalisation' in Mercosur.¹⁰³ Brazil is the dominating partner, particularly

⁹⁸ Ibid., p. 135.

⁹⁹ See Thomas Carothers, 'The rule of law revival', *Foreign Affairs* 77: 2, March–April 1998, pp. 96–106.

¹⁰⁰ Thomas Carothers, 'The many agendas of rule-of-law reform in Latin America', in Pilar Domingo and Rachel Sieder, eds, *The rule of law in Latin America: the international promotion of judicial reform* (London: Institute for Latin American Studies, 2001), p. 7.

¹⁰¹ Kevin E. Davis and Michael J. Trebilcock, 'Law reforms and development', *Third World Quarterly* 22: 1, 2001, p. 33.

¹⁰² Wiarda, 'Law and political development in Latin America', pp. 211–238, 232, 221.

¹⁰³ Hurrell, 'The politics of regional integration in Mercosur', p. 209.

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now Argentina is economically weakened, and Mercosur is a foreign policy tool for strengthening its negotiating position globally.¹⁰⁴ Dependency avoidance continues to be evident in a Brazilian preoccupation with national sovereignty and a desire to limit US domination.¹⁰⁵ Brazil is unlikely, therefore, to subordinate its political agenda to the integration process and reluctant to accept community rules and supranational institutions, unless they further its domestic interests.¹⁰⁶ The smaller members on the other hand, and to some extent Argentina, see institution-building as essential to their development.

Structural constraints

At the heart of South American governance is a 'corporatist' ethos in which the state is the most important determining factor in society, its prime regulator and coordinator: 'the state is always going to have an important role in attenuating social differences.'¹⁰⁷ It has been argued that Brazil's foreign policy, for example, reflects a strong and relatively autonomous state.¹⁰⁸ Such a 'statist' and elite-dominated approach could constrain tendencies to share sovereignty and adopt a broader developmental ethos.

Institutional constraints

Institutions can suffer from politically driven malfunctions.¹⁰⁹ In Mercosur they are inherently political. Disputes are settled through intergovernmental negotiation emphasizing bargaining, flexibility and adaptability,¹¹⁰ with no independent judicial body to interpret and apply agreements. While an informal approach may have been valuable in generating interdependence early on, handling disputes on a case-by-case basis might now undermine the formal character of Mercosur. Thus, for long-term development, Mercosur 'needs to be based on clear and authoritative rules and institutional processes and a generalised expectation that they will be followed'.¹¹¹

Judicial constraints

The contradictory nature of South American legal systems is mirrored in Mercosur. While its treaties incorporate far-reaching commitments, implementation

¹⁰⁴ See Fernando Masi, 'Mercosur: the difficult path toward integration', Miami: North-South Center briefing, 11 July 2001, <http://www.miami.edu/nsc/publications/newsupdates/Update45.html>.

¹⁰⁵ Discussion with Professor Jose Augusto Guilhon Albuquerque of São Paulo University, 27 May 2002.

¹⁰⁶ Lia Valls Pereira, 'Toward the Common Market of the South: Mercosur's origins, evolution, and challenges', in Roett, ed., *Mercosur*, p. 20.

¹⁰⁷ President Cardoso of Brazil, quoted in Richard Lapper and Raymond Colitt, 'Cardoso keeps a cool head', *Financial Times*, 18 April 2002.

¹⁰⁸ Hurrell, 'The politics of regional integration in Mercosur', p. 195.

¹⁰⁹ Graham and Naim, 'The political economy of institutional reform in Latin America'.

¹¹⁰ Bouzos and Soltz, 'Institutions and regional integration', p. 117.

¹¹¹ Hurrell, 'The politics of regional integration in Mercosur', p. 211.

lacks discipline and rules are flouted. Nor are Mercosur norms community law, but international law requiring national implementation; easier in Argentina (and Paraguay), where international law prevails, than in Brazil (and Uruguay), where this has been resisted.¹¹² Nor does a codified legal tradition encourage the establishment of precedent and judicial interpretation. An independent, non-political, judicial body might be difficult, therefore, to incorporate.

Nevertheless, in other parts of South America these constraints have not been so inhibiting. The Andean Community, for instance, has a Court of Justice modelled on the EU to ensure adherence to community law,¹¹³ and a regional development fund (CAF) whose aims are to support regional integration and assist sustainable development.¹¹⁴ In Mercosur, development problems are addressed by individual countries and international organizations.¹¹⁵ Yet Mercosur members are party to international treaties which bind them to independent jurisdiction. This might seem the ultimate contradiction; but it is one that could be examined using the concept of legalization.¹¹⁶ Ultimately, the question has to be asked whether Mercosur was ever likely to be developmental in the sense of reducing income inequalities and poverty.¹¹⁷ As suggested already, the 'new economic model' may have increased poverty, which was likely to be only partly ameliorated by accelerated rates of growth so far unsustainable in Mercosur.¹¹⁸ Evidence from its poorest and least developed member, Paraguay, suggests that any development hopes have fallen well short of target. While Brazil may still be seeking a more independent path, perhaps unrealistically,¹¹⁹ Paraguay seems trapped and dependent.

The future of Mercosur itself remains uncertain in 2003. Reid's 'unlikely' scenario of 'rupture' or 'drifting into irrelevance'¹²⁰ may yet come to pass, although the former is still unlikely. The signals are mixed. Across the continent there is disillusionment with the neoliberal reforms and the 'Washington consensus'.¹²¹ This has been exacerbated by the IMF's response to the crisis in Argentina. The international financial institutions are increasingly being urged to adopt a more developmental approach, with less emphasis on structural adjustment. Moreover, the new government in Brazil is pledged to a more

¹¹² INTAL, *Mercosur Report 2001/2002*, p. 6.

¹¹³ See Page, *Regionalism among developing countries*, pp. 236–46.

¹¹⁴ Fernando Masi and Amaury Hoste, *Economic development and asymmetries in Mercosur: the prospects of a Mercosur regional development fund*, Working Paper no. 4 (Miami: North–South Center, April 2002), pp. 23–4. See <http://www.miami.edu/nsc/publications/pubs-WP-pdf/WP4.pdf>.

¹¹⁵ Masi, 'Mercosur: the difficult path toward integration', p. 37.

¹¹⁶ Kenneth Abbott et al., 'The concept of legalisation', special issue of *International Organisation* 54: 3, Summer 2000, pp. 401–20.

¹¹⁷ Bulmer-Thomas thinks not; see *The new economic model in Latin America*, p. 296.

¹¹⁸ Edmund Amann and Werner Baer have recently concluded that a decade of neoliberal policies has 'achieved little by way of reducing income inequality and poverty'. See 'Neoliberalism and its consequences in Brazil', *Journal of Latin American Studies* 34: 4, Nov. 2002, p. 945.

¹¹⁹ See David Williams, 'Aid and sovereignty: quasi-states and the international financial institutions', *Review of International Studies* 26: 4, 2000, pp. 557–73.

¹²⁰ Reid, 'Turmoil and opportunity', p. 24.

¹²¹ Terry Wade, 'Washington consensus is losing support in Latin America', Dow Jones Newswires, 25 Nov. 2002.

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sociodevelopmental approach aimed at addressing some of the country's gross inequalities, discussed earlier,¹²² though this may yet have to wait.¹²³ There are echoes of this in other countries of the region. President Lula has also placed an emphasis on Mercosur,¹²⁴ suggesting a preference over an FTAA, especially if progress can be made in negotiations with the Andean Community.¹²⁵ There are also indications that Mercosur's members are still intent on moving the project forward. For example, they approved a plan for the free movement of people among all six members and associate members at the end of 2002.¹²⁶ Yet all of this may still end in tears, especially if the economic crisis in Argentina cannot be resolved, dollarization (replacement of the Peso by the US dollar as the official currency) follows the forthcoming presidential election, or the Lula government fails in its development aims. Gross inequalities of the sort still prevalent in the region cannot sustain economic development and a sound future for Mercosur. It may yet 'drift into irrelevance', although an agreement with the EU may throw it a slender lifeline. Moreover, many would argue that if Mercosur is essentially a political project its best contribution may continue to be in maintaining a political dialogue among its members.

¹²² Larry Rohter, 'A leftist takes over in Brazil and pledges a "new path"', *New York Times*, 2 Jan. 2003.

¹²³ Jonathan Carp, 'Da Silva pledges that economy, not social policy, will be the focus', *Wall Street Journal*, 31 Dec. 2002.

¹²⁴ Kevin G. Hall, 'Brazil's leader pushes trade pact: revive Mercosur, neighbours', *Miami Herald*, 30 Dec. 2002. A more detailed assessment of prospects under the Lula government is given in Andy Klom's article, 'Mercosur and Brazil: a European perspective', *International Affairs* 79: 2, March 2003, pp. 00–00.

¹²⁵ See 'Mercosur econ talks begin behind closed doors in Brasilia', *Dow Jones Newswires*, 6 Dec. 2002.

¹²⁶ Larry Rohter, 'South America trading bloc frees movement of its people', *New York Times*, 25 Nov. 2002.